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Soybean Planting Update

2006

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Report Highlights:

Post forecasts 2006/07 soybean area at 20.5 million hectares and production at 55.5 million tons, which is a 2.0 million ton drop from the previous Post forecast and a 7% decline in acreage compared to last year's soybean crop. Yields are expected to be slightly under the 5-year average at 2.7, due to lower fertilizer sales and lower expected input use in general. Lack of credit availability continues to be a hindrance for soybean farmers.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

Production

Post forecasts 2006/07 soybean production at 55.5 million metric tons (MMT), which is a 2.0 million ton drop from the previous Post forecast but 500,000 tons greater than last year's crop. Yields are expected to be slightly under the 5-year average at 2.7, due to lower wfertilizer sales and lower expected input use in general. Post's forecast is similar to that of several private analysts in Brazil, and this year, the Brazilian outlook for overall production does not vary as much as recent years. For example, Safras and Mercado foresees production reaching 55.2 million tons and Abiove projects a 55.7 million ton crop. Celeres forcasts the crop at 53.6 million tons. Conab's (Brazilian Food Supply Company) first survey came in at a range of 53.5 – 55.0 MMT. Brasoja of Porto Alegre is the most conservative, believing soy production will not surpass 50 MMT due to climatic factors relating to El Niño, rust, and general indebtedness.

Soybean Area, Yield, and Production
November 2006 Post Forecast
(1000 ha; Tons/ha, Thousand tons)

Region	Area	Yield	Production
Center West	**8855**	**2.830**	**25060**
MS	1700	**2.824**	4800
MT	5000	**2.800**	14000
GO	2100	**2.905**	6100
DF	55	**2.909**	160
South	**8420**	**2.565**	**21600**
PR	4000	**2.900**	11600
SC	370	**2.703**	1000
RS	4050	**2.222**	9000
Southeast	**1385**	**2.834**	**3925**
MG	875	**2.857**	2500
SP	510	**2.794**	1425
Northeast	**1420**	**2.553**	**3625**
MA	380	**2.632**	1000
PI	220	**2.614**	575
BA	820	**2.500**	2050
North	**465**	**2.860**	**1330**
RO	82	**2.866**	235
AM	15	**3.000**	45
RR	18	**3.333**	60
PA	80	**3.000**	240
TO	270	**2.778**	750
Totals	**20545**	**2.703**	**55540**

Area

Post expects area planted for soybeans to be only 20.5 million hectares, an overall drop of 7% in area. The largest drop in area is projected for Mato Grosso, which is expected to lose more than 800,000 hectares to other crops, including marginal land where soy was planted in recent years that is going back into pasture. In Mato Grosso and other parts of the Center-west, corn and sugarcane are expected to take acreage from soybeans. This trend in the Southeast of Brazil is also to plant sugarcane, and notable shifting from soy to sugarcane is taking place. The South is the only region expected to maintain its soy area.

The 2006/07 Soybean crop is 25% planted as of Nov 1, and the majority of those beans already planted are located in Mato Grosso (42% planted), Mato Grosso do Sul (32% planted), Goias (30% planted), and Paraná (25% planted). Overall, planting for Brazil is ahead of schedule, since the average progress for Nov 1 is only 15%. If planting continues to go at a faster rate than earlier years, an early harvest should assist the avoidance of Soybean Rust. Due to heavy rains that fell in the last part of October throughout much of Brazil, farmers took advantage of intermittent dry days, or in some cases even hours, to get their beans in the ground. Some farmers were delayed by heavy rains and forced to wait for their fields to dry out before they could move their equipment into the fields to plant. Most states are above their monthly averages for rainfall. Overall, however, the climate has been favorable in most areas of the country for planting.

Although international soybean prices have improved in recent weeks, contacts confirm that a substantial change in planting intentions for this harvest is very unlikely, due to the fact that farmers' decisions were made before the market made its positive turn. In addition, credit limitations, especially for farmers who are indebted from previous years, have impacted this season in a major way.

Exports

In 2006 soybean exports to date are 26.5 million tons, 15% higher than the same period in 2005. However, soy meal and oil exports are declining, mainly for two reasons. First, demand has grown in Asia, particularly in China, which has a clear interest in purchasing soybeans and further developing their own soybean processing industry. Second, the lack of profit earned by Brazil's processing sector is causing Brazilian companies to loose market share to other countries, in particular Argentina. Soy meal exports have decreased 14% in 2006, while oil exports diminished 9% from the previous year.

More and more Brazilian farmers are now doing their own exporting. It was reported that so far this year, over 100 soybean producers in Mato Grosso exported their crop directly, instead of going through multinationals. If the producer has the outside financing to do so, this move reduces the cost of production by 20% per sack, which is currently 22 Reals ($10). The access to credit via ACCs (Anticipation of Credit Contracts) with interest rates around 10% (versus 16% when done via multinationals) and the exemption of the Funrural tax (currently 2.3% of sales amount), as well as 15% savings on inputs all provide motives to export directly. In addition, direct exporting also allows Brazilian farmers to have more control over price, allowing them to fix prices according to the current price in Chicago.

Soybean Export Costs and Net Income Base port of Paranaguá							
	Rio Verde	**Uberlândia**	**Dourados**	**Rondonópolis**	**Cascavel**	**Passo Fundo**	**Mogiana**
Chicago Price ($/bushel)	663.25	663.25	663.25	663.25	663.25	663.25	663.25
Premium/Discount ($)	22.00	22.00	22.00	22.00	22.00	22.00	22.00
Income F.O.B. ($/bushel)	685.25	685.25	685.25	685.25	685.25	685.25	685.25
Income F.O.B. ($/tons)	251.78	251.78	251.78	251.78	251.78	251.78	251.78
Total Expenses ($/tons)	(65.45)	(53.45)	(62.45)	(70.45)	(49.45)	(51.45)	(46.45)
Freight Expenses	(56.00)	(44.00)	(53.00)	(61.00)	(40.00)	(42.00)	(37.00)
Port Expenses	(5.20)	(5.20)	(5.20)	(5.20)	(5.20)	(5.20)	(5.20)
Taxes/Comissions/Margin Expenses	(3.78)	(3.78)	(3.78)	(3.78)	(3.78)	(3.78)	(3.78)
Exchange Broker Expenses	(0.47)	(0.47)	(0.47)	(0.47)	(0.47)	(0.47)	(0.47)
Net Income ($/ton)	**186.33**	**198.33**	**189.33**	**181.33**	**202.33**	**200.33**	**205.33**
Export Price Received (R$/bag***)	23.94	25.48	24.32	23.29	25.99	25.73	26.38
Domestic Market Price(R$/bag)	27.00	30.00	27.00	26.00	31.00	28.50	29.00
Export vs. Domestic Price Disparity	**12.80%**	**17.75%**	**11.01%**	**11.62%**	**19.27%**	**10.75%**	**9.95%**
Source: Céleres * Exchange rate used: R$ 2,141/$ ** In Uberlândia and Mogiana, shipments through Santos. *** 60 kg. bag							

In the above chart on Soybean Export Costs and Net Income, it is worth noting that the export price for Brazilian farmers is currently 10-20 percent lower than the domestic market price farmers receive. This is due to the current high demand on the domestic market for soybeans. The chart also highlights the fact that farmers in the South (Cascavel, Passo Fundo, Mogiana) are expected to receive more net income than their counterparts in the Center-west, in good part due to their lower transportation costs. This explains why Southern farmers, in spite of credit challenges, will maintain the soy area in their region.

Emergency Aid Arrives

The Brazilian government released 1 billion Reals ($47 million) on Nov 1 for the 2006/07 to assist in marketing soybean crop. Post reported on the announcement of this subsidy in May, which formed part of former minister Roberto Rodrigues' Agriculture and Livestock Plan for 2006/07. Although this plan was released 5 months ago, the support was only guaranteed after the governor of Mato Grosso Blairo Maggi publicly announced his support for President Lula's re-election in October.

This money is in addition to the $8 billion dollars that was announced earlier in the year for price supports, debt rollover, and crop insurance for the sector. This supplementary money for soybeans is intended to subsidize part of the increase in transportations costs due to higher diesel prices. Some concerns in Brazil have been raised regarding whether this subsidy risks the Brazilian position at the WTO.

This emergency aid for soybeans will be dispersed via PROP options. PROP (Private Option Risk Premium) is a price support program managed by Conab. PROP represents the maximum amount that Conab will pay to cooperatives and processors in order to guarantee a certain price to producers, which is above the market price. (For more information see BR6607, BR6611, and BR6613.) Auctions will go on during the season, between February and July 2007, and are expected to take place in Bahia, Minas Gerais, Maranhão, Piaui, Pará and Rondonia.

The support is expected to benefit growers in the Center-West region in particular, who are confronted with major infrastructure issues. According to Post estimates, producers in this region are expected to harvest approximately 25 million tons, a 7% decrease from last season's near 26.8 million tons. Post estimates an area reduction of about 13% for the region.